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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

LIANGBIN LI, Individually and on
Behalf of All Others Similarly Situated,

Plaintiff,

vs.

NATURAL HEALTH TRENDS
CORP., CHRIS T. SHARNG, and
TIMOTHY S. DAVIDSON,

Defendants

Case No.

**CLASS ACTION COMPLAINT
FOR VIOLATION OF THE
FEDERAL SECURITIES LAWS**

JURY TRIAL DEMANDED

1 Plaintiff Liangbin Li (“Plaintiff”), by his undersigned attorneys, individually and
2 on behalf of all other persons similarly situated, alleges the following based upon
3 personal knowledge as to Plaintiff’s own acts, and information and belief as to all other
4 matters, based upon, *inter alia*, the investigation conducted by and through Plaintiff’s
5 attorneys, which included, among other things, a review of Defendants’ public
6 documents, conference calls and announcements made by Defendants, United States
7 Securities and Exchange Commission (“SEC”) filings, wire and press releases published
8 by and regarding Natural Health Trends Corp. (“Natural Health Trends” or the
9 “Company”), and information readily obtainable on the Internet. Plaintiff believes that
10 substantial evidentiary support will exist for the allegations set forth herein after a
11 reasonable opportunity for discovery.
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16 **NATURE OF THE ACTION**

17 1. This is a federal securities class action brought on behalf of a class
18 consisting of all persons and entities, other than Defendants (defined below) and their
19 affiliates, who purchased or otherwise acquired the securities of Natural Health Trends
20 from March 6, 2015 to January 12, 2016, inclusive (the “Class Period”). Plaintiff seeks
21 to pursue remedies against Natural Health Trends and certain of its officers and directors
22 for violations of federal securities laws.
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JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder (17 C.F.R. § 240.10b-5).

3. This Court has jurisdiction over the subject matter of this action pursuant to § 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331.

4. Venue is proper in this District pursuant to §27 of the Exchange Act, 15 U.S.C. §78aa and 28 U.S.C. §1391(b), as Defendants conduct business in this District, maintain their principal place of business in this District, and a significant portion of the Defendants' actions and the subsequent damages, took place within this District.

5. In connection with the acts, conduct and other wrongs alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mail, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

6. Plaintiff, as set forth in the attached Certification, acquired Natural Health Trends securities at artificially inflated prices during the Class Period and was damaged upon the revelation of the alleged corrective disclosure.

7. Defendant Natural Health Trends operates as an international direct selling and e-commerce company. Natural Health Trends is a Delaware corporation

1 headquartered in Rolling Hills Estates, California. Its common stock trades on the
2 NASDAQ under the ticker symbol “NHTC.”

3 8. Defendant Chris T. Sharng (“Sharng”) has served as the Company’s
4 President throughout the Class Period.
5

6 9. Defendant Timothy S. Davidson (“Davidson”) has served as the Company’s
7 Chief Financial Officer (“CFO”), Senior Vice President and Corporate Secretary
8 throughout the Class Period.
9

10 10. The defendants referenced above in ¶¶ 8 – 9 are sometimes referred to
11 herein as the “Individual Defendants.”
12

13 11. Defendant Natural Health Trends and the Individual Defendants are referred
14 to herein, collectively, as the “Defendants.”
15

16 12. Each of the Individual Defendants:

17 (a) directly participated in the management of the Company;

18 (b) was directly involved in the day-to-day operations of the Company at
19 the highest levels;
20

21 (c) was privy to confidential proprietary information concerning the
22 Company and its business and operations;
23

24 (d) was involved in drafting, producing, reviewing and/or disseminating
25 the false and misleading statements and information alleged herein;
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1 (e) was aware of or recklessly disregarded the fact that the false and
2 misleading statements were being issued concerning the Company; and

3 (f) approved or ratified these statements in violation of the federal
4 securities laws.
5

6 13. As officers, directors, and controlling persons of a publicly-held company
7 whose securities are and were registered with the SEC pursuant to the Exchange Act, and
8 was traded on NASDAQ and governed by the provisions of the federal securities laws,
9 the Individual Defendants each had a duty to disseminate accurate and truthful
10 information promptly with respect to the Company's business prospects and operations,
11 and to correct any previously-issued statements that had become materially misleading
12 or untrue to allow the market price of the Company's publicly-traded stock to reflect
13 truthful and accurate information.
14

15
16 14. Natural Health Trends is liable for the acts of the Individual Defendants and
17 its employees under the doctrine of respondeat superior and common law principles of
18 agency as all of the wrongful acts complained of herein were carried out within the scope
19 of their employment with authorization.
20

21 15. The scienter of the Individual Defendants and other employees and agents
22 of the Company is similarly imputed to Natural Health Trends under respondeat superior
23 and agency principles.
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SUBSTANTIVE ALLEGATIONS

Background

16. The Company controls subsidiaries that sell personal care, wellness, and “quality of life” products under the “NHT Global” brand.

17. The Company’s wholly-owned subsidiaries have an active presence in: North America; Greater China (consisting of Hong Kong, Taiwan and China); South Korea; Japan; and Europe (consisting of Italy and Slovenia). The Company also operates within certain Commonwealth of Independent States (Russia, Kazakhstan and Ukraine) through its engagement with a local service provider.

18. The Company sells its products primarily through its network marketing operations, except for China where it sells directly to consumers through an ecommerce platform.

19. The Company has not implemented a direct selling or multi-level marketing model in China. The Chinese government permits direct selling only by organizations that have a license that the Company does not have, and has also adopted anti-multilevel marketing legislation.

Materially False And Misleading Statements

20. On March 6, 2015, the Company filed an annual report on Form 10-K with the SEC for the year ended December 31, 2014 (the “2014 10-K”), which was signed by Defendants Sharng and Davidson. The 2014 10-K contained signed certifications

1 pursuant to the Sarbanes-Oxley Act of 2002 (“SOX”) by Defendants Sharng and
2 Davidson stating that the financial information contained in the 2014 10-K was accurate,
3 all fraud was disclosed, and any material changes to the Company’s internal control over
4 financial reporting were disclosed.
5

6 21. The 2014 10-K stated the following with regards to the Company’s
7 operations in China:
8

9 We believe that the laws and regulations in China regarding
10 direct selling and multi-level marketing are not specifically
11 applicable to our Hong Kong-based e-commerce activity, and
12 that *our Chinese entity is operating in compliance with
applicable Chinese laws.*

13 [Emphasis added].
14

15 22. On May 4, 2015, the Company filed a quarterly report on Form 10-Q with
16 the SEC for the quarter ended March 31, 2015 (the “Q1 2015 10-Q”), which was signed
17 by Defendant Davidson. The Q1 2015 10-Q contained signed SOX certifications by
18 Defendants Sharng and Davidson stating that the financial information contained in the
19 Q1 2015 10-Q was accurate, all fraud was disclosed, and any material changes to the
20 Company's internal control over financial reporting were disclosed.
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23 23. The Q1 2015 10-Q stated the following with regards to the Company’s
24 operations in China:
25

26 China has been and continues to be our most important business
27 development project. In June 2004, we obtained a general
28 business license in China. Direct selling is prohibited in China
without a direct selling license which we do not have. In

1 December 2005, we submitted a preliminary application for a
2 direct selling license. In June 2006, we submitted a revised
3 application package in accordance with new requirements
4 issued by the Chinese government. ***In June 2007, we launched***
5 ***a new e-commerce retail platform in China that does not***
6 ***require a direct selling license. We believe this model, which***
7 ***offers discounts based on volume purchases, will encourage***
8 ***repeat purchases of our products for personal consumption in***
9 ***the Chinese market. The platform is designed to be in***
10 ***compliance with our understanding of current laws and***
11 ***regulations in China.*** In November 2007, we filed a new,
12 revised direct selling application incorporating a name change,
13 our new e-commerce model and other developments. These
14 direct selling applications were not approved or rejected by the
15 pertinent authorities, but did not appear to materially progress.
16 By 2009, the information contained in the most recent
17 application was stale. The Company applied to temporarily
18 withdraw the license application in February 2009 to furnish
19 new information and intends to amend its application with the
20 goal to re-apply in the next 12 months. We are unable to predict
21 whether we will be successful in obtaining a direct selling
22 license to operate in China, and if we are successful, when we
23 will be permitted to enhance our e-commerce retail platform
24 with direct selling operations.

25 [Emphasis added].

26 24. On July 28, 2015, the Company filed a quarterly report on Form 10-Q with
27 the SEC for the quarter ended June 30, 2015 (the “Q2 2015 10-Q”), which was signed by
28 Defendant Davidson. The Q2 2015 10-Q contained signed SOX certifications by
Defendants Sharng and Davidson stating that the financial information contained in the
Q2 2015 10-Q was accurate, all fraud was disclosed, and any material changes to the
Company’s internal control over financial reporting were disclosed.

1 25. The Q2 2015 10-Q stated the following with regards to the Company's
2 operations in China:

3 China has been and continues to be our most important business
4 development project. In June 2004, we obtained a general
5 business license in China. Direct selling is prohibited in China
6 without a direct selling license which we do not have. In
7 December 2005, we submitted a preliminary application for a
8 direct selling license. In June 2006, we submitted a revised
9 application package in accordance with new requirements
10 issued by the Chinese government. ***In June 2007, we launched***
11 ***a new e-commerce retail platform in China that does not***
12 ***require a direct selling license. The platform is designed to be***
13 ***in compliance with our understanding of current laws and***
14 ***regulations in China.*** In November 2007, we filed a new,
15 revised direct selling application incorporating a name change,
16 our new e-commerce model and other developments. These
17 direct selling applications were not approved or rejected by the
18 pertinent authorities, but did not appear to materially progress.
19 By 2009, the information contained in the most recent
20 application was stale. The Company applied to temporarily
21 withdraw the license application in February 2009 to furnish
22 new information and intends to amend its application with the
23 goal to reapply. We are unable to predict whether we will be
24 successful in obtaining a direct selling license to operate in
25 China, and if we are successful, when we will be permitted to
26 enhance our e-commerce retail platform with direct selling
27 operations.

28 [Emphasis added].

23 26. On October 27, 2015, the Company filed a quarterly report on Form 10-Q
24 with the SEC for the quarter ended September 30, 2015 (the "Q3 2015 10-Q"), which
25 was signed by Defendant Davidson. The Q3 2015 10-Q contained signed SOX
26 certifications by Defendants Sharng and Davidson stating that the financial information
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1 contained in the Q3 2015 10-Q was accurate, all fraud was disclosed, and any material
2 changes to the Company's internal control over financial reporting were disclosed.

3 27. The 3Q 2015 10-Q stated the following with regards to the Company's
4 operations in China:
5

6 *We believe that our China e-commerce retail platform*
7 *operates in compliance with current laws and regulations in*
8 *China.* Further, after consulting with outside professionals, we
9 also believe that our ecommerce direct selling model in Hong
10 Kong does not violate any applicable laws in China, even
11 though it is used for the internet purchase of our products by
12 members in China. There can be no assurance, however, that
13 the Chinese authorities will agree with our interpretations of
14 existing laws and regulations or that China will not adopt new
15 laws or regulations. Even if we are successful in obtaining a
16 China direct selling license, our operations will remain subject
17 to the uncertainties inherent in the complex regulatory
18 environment in China.

19 [Emphasis added].

20 28. The statements referenced in ¶¶ 20-27 above were materially false and/or
21 misleading because they misrepresented and failed to disclose the following adverse
22 facts pertaining to Natural Health Trends' business, operations, and prospects, which
23 were known to Defendants or recklessly disregarded by them. Specifically, Defendants
24 made false and/or misleading statements and/or failed to disclose that: (1) the operations
25 of Natural Health Trends' Chinese entity is not in compliance with applicable Chinese
26 laws; and (2) as a result, Defendants' statements about Natural Health Trends' business,
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1 operations, and prospects, were false and misleading and/or lacked a reasonable basis at
2 all relevant times.

3
4 **The Truth Emerges**

5 29. On January 7, 2016, *Seeking Alpha* published a post indicating that a
6 newspaper investigative report published in China revealed that the Company was under
7 investigation by Chinese authorities.

8
9 30. On this news, Natural Health Trends stock fell \$3.11 per share, or over 10%
10 from its previous closing price, to close at \$25.92 per share on January 7, 2016,
11
12 damaging investors.

13 31. On January 11, 2016, the Company issued a press release announcing fourth
14 quarter 2015 estimated revenue in which Defendant Sharng stated, in part:
15

16 On January 7, we became aware of an online posting alleging a
17 government investigation of our business in China. By January
18 11, our Chinese employees were in direct contact with the
19 Beijing City's government officials. ***As of now, we are***
20 ***unaware of an investigation.*** We have initiated the process set
21 forth in China's pertinent law to contact the website where the
allegation was posted. We will appropriately disclose any
material, verified information.

22 [Emphasis added].

23
24 32. On January 11, 2016, analyst firm GeoInvesting, LLC ("GeoInvesting")
25 issued a report about the Company asserting, among other things, that: (1) according to a
26 neighboring office employee, the Company's Beijing office was visited by uniformed
27 authorities on or around December 25, 2015, who seized property; (2) this visit by
28

1 uniformed authorities corroborates the *Seeking Alpha* post that the Company is under
2 investigation for running an illegal multi-level marketing business in China; (3) on
3 December 28, 2015, the Company posted a special notice on its official website warning
4 its distributors to stop using its name; (4) on January 8, 2016, the Company announced
5 the temporary suspension of its distributor website for maintenance; and (5) snapshots
6 from the Company's Hong Kong website appear to confirm that the Company is
7 operating an illegal multi-level marketing scheme in China.
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10 33. On this news, Natural Health Trends stock fell \$2.65 per share, or over 11%
11 from its previous closing price, to close at \$20.70 per share on January 11, 2016, further
12 damaging investors.
13

14 34. On January 12, 2016, GeoInvesting issued another report about the
15 Company asserting, among other things, that several reputable Chinese media sites,
16 including *SINA Finance*, had earlier that morning reported that the Company had been
17 raided and is under investigation.
18

19 35. On this news, Natural Health Trends stock fell \$1.51 per share, or over 7%
20 from its previous closing price, to close at \$19.18 per share on January 12, 2016, further
21 damaging investors.
22

23 36. As a result of Defendants' wrongful acts and omissions, and the precipitous
24 decline in the market value of the Company's securities, Plaintiff and other Class
25 members have suffered significant losses and damages.
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PLAINTIFF'S CLASS ACTION ALLEGATIONS

37. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired Natural Health Trends securities during the Class Period (the "Class"); and were damaged upon the revelation of the alleged corrective disclosure. Excluded from the Class are Defendants herein, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

38. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Natural Health Trends securities were actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can be ascertained only through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Natural Health Trends or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

1 39. Plaintiff's claims are typical of the claims of the members of the Class as all
2 members of the Class are similarly affected by Defendants' wrongful conduct in
3 violation of federal law that is complained of herein.
4

5 40. Plaintiff will fairly and adequately protect the interests of the members of
6 the Class and has retained counsel competent and experienced in class and securities
7 litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.
8

9 41. Common questions of law and fact exist as to all members of the Class and
10 predominate over any questions solely affecting individual members of the Class.
11
12 Among the questions of law and fact common to the Class are:

- 13 • whether the federal securities laws were violated by Defendants' acts as
14 alleged herein;
 - 15 • whether statements made by Defendants to the investing public during
16 the Class Period misrepresented material facts about the business,
17 operations and management of Natural Health Trends;
 - 18 • whether the Individual Defendants caused Natural Health Trends to issue
19 false and misleading financial statements during the Class Period;
 - 20 • whether Defendants acted knowingly or recklessly in issuing false and
21 misleading financial statements;
 - 22 • whether the prices of Natural Health Trends securities during the Class
23 Period were artificially inflated because of the Defendants' conduct
24 complained of herein; and
 - 25 • whether the members of the Class have sustained damages and, if so,
26 what is the proper measure of damages.
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1 42. A class action is superior to all other available methods for the fair and
2 efficient adjudication of this controversy since joinder of all members is impracticable.
3 Furthermore, as the damages suffered by individual Class members may be relatively
4 small, the expense and burden of individual litigation make it impossible for members of
5 the Class to individually redress the wrongs done to them. There will be no difficulty in
6 the management of this action as a class action.
7

8
9 43. Plaintiff will rely, in part, upon the presumption of reliance established by
10 the fraud-on-the-market doctrine in that:
11

- 12 • Defendants made public misrepresentations or failed to disclose material
13 facts during the Class Period;
- 14 • the omissions and misrepresentations were material;
- 15 • Natural Health Trends securities are traded in an efficient market;
- 16 • the Company's shares were liquid and traded with moderate to heavy
17 volume during the Class Period;
- 18 • the Company traded on the NASDAQ and was covered by multiple
19 analysts;
- 20 • the misrepresentations and omissions alleged would tend to induce a
21 reasonable investor to misjudge the value of the Company's securities;
22 and
- 23 • Plaintiff and members of the Class purchased, acquired and/or sold
24 Natural Health Trends securities between the time the Defendants failed
25 to disclose or misrepresented material facts and the time the true facts
26 were disclosed, without knowledge of the omitted or misrepresented
27 facts.
28

1 devices, schemes and artifices to defraud in connection with the purchase and sale of
2 securities. Such scheme was intended to, and, throughout the Class Period, did: (i)
3 deceive the investing public, including Plaintiff and other Class members, as alleged
4 herein; (ii) artificially inflate and maintain the market price of Natural Health Trends
5 securities; and (iii) cause Plaintiff and other members of the Class to purchase or
6 otherwise acquire Natural Health Trends securities at artificially inflated prices. In
7 furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each
8 of them, took the actions set forth herein.
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12 49. Pursuant to the above plan, scheme, conspiracy and course of conduct, each
13 of the Defendants participated directly or indirectly in the preparation and/or issuance of
14 the annual reports, SEC filings, press releases and other statements and documents
15 described above, including statements made to securities analysts and the media that
16 were designed to influence the market for Natural Health Trends securities. Such reports,
17 filings, releases and statements were materially false and misleading in that they failed to
18 disclose material adverse information and misrepresented the truth about Natural Health
19 Trends' disclosure controls and procedures.
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23 50. By virtue of their positions at Natural Health Trends, Defendants had actual
24 knowledge of the materially false and misleading statements and material omissions
25 alleged herein and intended thereby to deceive Plaintiff and the other members of the
26 Class, or, in the alternative, Defendants acted with reckless disregard for the truth in that
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1 they failed or refused to ascertain and disclose such facts as would reveal the materially
2 false and misleading nature of the statements made, although such facts were readily
3 available to Defendants. Said acts and omissions of Defendants were committed
4 willfully or with reckless disregard for the truth. In addition, each defendant knew or
5 recklessly disregarded that material facts were being misrepresented or omitted as
6 described above.
7

8
9 51. Information showing that Defendants acted knowingly or with reckless
10 disregard for the truth is peculiarly within Defendants' knowledge and control. As the
11 senior managers and/or directors of Natural Health Trends, the Individual Defendants
12 had knowledge of the details of Natural Health Trends' internal affairs.
13

14
15 52. The Individual Defendants are liable both directly and indirectly for the
16 wrongs complained of herein. Because of their positions of control and authority, the
17 Individual Defendants were able to and did, directly or indirectly, control the content of
18 the statements of Natural Health Trends. As officers and/or directors of a publicly held
19 company, the Individual Defendants had a duty to disseminate timely, accurate, and
20 truthful information with respect to Natural Health Trends' businesses, operations, future
21 financial condition and future prospects. As a result of the dissemination of the
22 aforementioned false and misleading reports, releases and public statements, the market
23 price of Natural Health Trends securities was artificially inflated throughout the Class
24 Period. In ignorance of the adverse facts concerning Natural Health Trends' business and
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1 financial condition which were concealed by Defendants, Plaintiff and the other
2 members of the Class purchased or otherwise acquired Natural Health Trends securities
3 at artificially inflated prices and relied upon the price of the securities, the integrity of
4 the market for the securities and/or upon statements disseminated by Defendants, and
5 were damaged thereby.
6

7
8 53. During the Class Period, Natural Health Trends securities were traded on an
9 active and efficient market. Plaintiff and the other members of the Class, relying on the
10 materially false and misleading statements described herein, which the Defendants made,
11 issued or caused to be disseminated, or relying upon the integrity of the market,
12 purchased or otherwise acquired shares of Natural Health Trends securities at prices
13 artificially inflated by Defendants' wrongful conduct. Had Plaintiff and the other
14 members of the Class known the truth, they would not have purchased or otherwise
15 acquired said securities, or would not have purchased or otherwise acquired them at the
16 inflated prices that were paid. At the time of the purchases and/or acquisitions by
17 Plaintiff and the Class, the true value of Natural Health Trends securities was
18 substantially lower than the prices paid by Plaintiff and the other members of the Class.
19 The market price of Natural Health Trends securities declined sharply upon public
20 disclosure of the facts alleged herein to the injury of Plaintiff and Class members.
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1 Natural Health Trends' business practices, and to correct promptly any public statements
2 issued by Natural Health Trends which had become materially false or misleading.

3 59. Because of their positions of control and authority as senior officers, the
4 Individual Defendants were able to, and did, control the contents of the various reports,
5 press releases and public filings which Natural Health Trends disseminated in the
6 marketplace during the Class Period concerning the Company's disclosure controls and
7 procedures. Throughout the Class Period, the Individual Defendants exercised their
8 power and authority to cause Natural Health Trends to engage in the wrongful acts
9 complained of herein. The Individual Defendants therefore, were "controlling persons"
10 of Natural Health Trends within the meaning of Section 20(a) of the Exchange Act. In
11 this capacity, they participated in the unlawful conduct alleged which artificially inflated
12 the market price of Natural Health Trends securities.

13 60. Each of the Individual Defendants, therefore, acted as a controlling person
14 of Natural Health Trends. By reason of their senior management positions and/or being
15 directors of Natural Health Trends, each of the Individual Defendants had the power to
16 direct the actions of, and exercised the same to cause, Natural Health Trends to engage in
17 the unlawful acts and conduct complained of herein. Each of the Individual Defendants
18 exercised control over the general operations of Natural Health Trends and possessed the
19 power to control the specific activities which comprise the primary violations about
20 which Plaintiff and the other members of the Class complain.

1 61. By reason of the above conduct, the Individual Defendants are liable
2 pursuant to Section 20(a) of the Exchange Act for the violations committed by Natural
3 Health Trends.
4

5 **PRAYER FOR RELIEF**

6 WHEREFORE, Plaintiff demands judgment against Defendants as follows:
7

8 A. Determining that the instant action may be maintained as a class action
9 under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as the
10 Class representative;
11

12 B. Requiring Defendants to pay damages sustained by Plaintiff and the Class
13 by reason of the acts and transactions alleged herein;
14

15 C. Awarding Plaintiff and the other members of the Class prejudgment and
16 post-judgment interest, as well as her reasonable attorneys' fees, expert fees and other
17 costs; and
18

19 D. Awarding such other and further relief as this Court may deem just and
20 proper.
21

22 **DEMAND FOR TRIAL BY JURY**

23 Plaintiff hereby demands a trial by jury.
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25
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1 Dated: January 14, 2016

2 Respectfully submitted,

3 **POMERANTZ LLP**

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